

Accounting Academic Library of ZUEL

# Proceedings of 2008 Sino-Australia International Conference on Accounting and Finance

---

Accounting School, ZUEL

(Book Two)

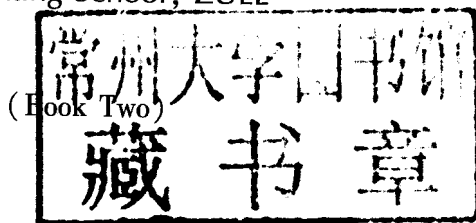


经济科学出版社  
Economic Science Press

*Accounting Academic Library of ZUEL*

# **Proceedings of 2008 Sino-Australia International Conference on Accounting and Finance**

Accounting School, ZUEL



经济科学出版社  
Economic Science Press

# Contents

## Book One

The Effects of Market Value Management on Listed Companies in China

..... *Hong Lan, Luo Honghui (1)*

Institutional Investor Activism and Corporate Governance

..... *Li Dongyuan, Wang Xiongyuan, Wang Yonghai (41)*

Management Disclosure, Timeliness of Annual Report and Information Transparency

..... *Wang Xiongyuan, Gu Jun (55)*

On the Significant Changes of SFAS141 Revised and the Effect on IFRS and CAS

..... *Chen Yuyuan (103)*

Self-interests or Win-win Policy for Top Executive Compensation Contract: From the Perspective of New-classical Economics

..... *Chen Zhen, Wang Xin (120)*

## Comparison of Accounting Research in China, Australia and America

..... *Tan Yanyan* (136)

## International Comparative Study and Reflection on the Supervision Function of the Board of Supervisors

..... *Huang Zhongsheng* (157)

## Comments on the Audit Quality Framework of Financial Reporting Council and Enlightenments

..... *Chen Lihong* (170)

## Discussions on the Implementation of Environmental Accounting in Northern Jiangsu Province under Industrial Transfer

..... *Li Yanling, Li Fang, Zhang Liping* (188)

## Analysis on the Relationship between Interdisciplinary and Graduate's Innovation Ability

..... *Hua Yong, Li Yang, Liu Qing* (203)

## A Study on the Relationship between Chinese Stock Market and American Stock Market

..... *Zhang Changcheng* (216)

## The Impact of Debt Structure on the Investment Behavior

..... *Dong Liming* (226)

## A Study on University Departments' Efficiency with Data Envelopment Analysis

..... *Yin Junming, Yang Zheng* (244)

# A Study on the Essentials of System Innovation in Social Responsibility Accounting Based on Cycling Economy

..... *Xu Jialin* (268)

## Analysis on the Influence of Industry Specialization on Audit Fees in China

..... *Wang Hua, Deng Suling* (311)

## Bank Loan Risk and Countermeasures of Higher Education Institutions in China

..... *Wang Zheng* (330)

## Managerial Ownership, Cash Dividend and Enterprise's Value

..... *Yang Hanming* (345)

## Review of Factors Working on Earnings Quality

..... *Wu Dejun* (366)

## Comparison between the Teaching Contents of the Courses of Financial Accounting in Series of the Accounting Major at Chinese and Australian Institutions of Higher Learning

..... *Yang Zheng, Song Yaqin* (378)

## A Theoretical Analysis Framework on Governmental Accounting Reform

..... *Zhang Qi* (399)

## Research on the Objectives of Financial Reporting

..... *Zeng Xiaoqing, Zheng Yi, Wu Zhijun* (411)

## Standardization of Financial System in Social Organization

..... *Yuan Tianrong, Zeng Hao (425)*

## Book Two

### Disclosure Quality of Environmental Information: Public Pressure, Social Trust and Internal Governance

..... *Chen Xiaolin, Yuan Deli, Zhang Guanjun, Hu Kan, Ji Yan (441)*

### Experience of Foreign Capital Market Accounting Regulation and Its Enlightenment

..... *Xia Chengcai, Long Ziwu (474)*

### Financial Shared Services in Multinational Corporations

..... *Chen Min (486)*

### Empirical Analysis on Influencing Factors for Debt Maturity Struc- ture of Chinese Listed Companies

..... *Zhang Zhihong (494)*

### The Scientific Principles of the Effective Measurement for an Initial Estimated Value of the Internal Rate of Return (IRR)

..... *Zhang Dunli, Li Yinxiang (516)*

### An Empirical Research on the Moral Education Influences on the Abilities of Recognizing Moral Issues

..... *Li Lu, Wu Qiong (537)*

# An Empirical Analysis on Earnings Pre-announcement of Chinese Listed Companies

..... *Wang Huifang* (553)

# A Research on Listed Companies' Financial Pre-warning Model Based on BP Neural Network

..... *Ding Lin* (561)

# Quality of Provisions for Bad Debts and Earnings Information Contents

..... *Zhan Lei* (572)

# Strategies for the Development of CPA Firms in Hubei Province

..... *Ji Yan, Hu Kan, Hu Haifeng, Chen Mingfa* (581)

# Enlightenments from UK Disclosure System of CSR Information

..... *Yang Haiyan* (597)

# Determinants of Audit Fees in Quoted China Companies

..... *Gong Jun* (611)

# Procedural Rationality Basis of Financial Order in Enterprises

..... *Liu Qi, Bai Jun* (621)

# A Research on Strategy of Financial Management in Universities

..... *Wu Jing, Cui Wei* (641)

# An Innovative Research on the Valuation of Enterprise Based on EVA

..... *Chen Xiaofang, He Yanting* (652)

## An Empirical Analysis on Growth Drivers of Listed Companies on China's SME Board

..... *Xu Sheng, Gao Shang, Fang Ming* (662)

## Between Two Coups: A Western Perspective of the Reporting Performance of Fiji Public Sector Entities for 2001 –2005

..... *Alistair Brown* (674)

## Evaluating the Extent of Australian Resource Companies' Estimates of Mineral and Petroleum Reserves

..... *Granley Taylor, Greg Tower, Phil Hancock* (708)

## The Impact of Environmental Influencing Forces on the Governance Paradigm of a Non For Profit Organisation

..... *Joe Christopher* (744)

## Assessing the Broader Financial Implications of Government Policy. Preventing Homelessness

..... *Kaylene Zaretsky, Paul Flatau* (779)

## Big 4 or 4 Big: Is There A Difference in Audit Quality?

..... *Inderpal Singh* (827)

## Perceptions of Accounting Performance Measures under Uncertainty

..... *Peter Newman, Alan Birnie, Liu Qiaoling* (856)

## The Value of Harmony Indices in Accounting Research

..... *Ross Taplin* (878)



# Disclosure Quality of Environmental Information: Public Pressure, Social Trust and Internal Governance

*Chen Xiaolin, Yuan Deli, Zhang Guanjun, Hu Kan, Ji Yan \**

**Abstracts:** The paper studies the relationship of public pressure, social trust, internal governance, and the environmental information disclosure quality of listed companies. The evidence shows that public pressure and internal control have positive relation with the disclosure quality of environmental information. The more pressure on government and creditors, the better corporation governance is and the higher the disclosure quality of environmental information is. According to different industries, the correlation between community trust and disclosure quality of environmental information is different. We find that the community trust is negatively related to the environmental information disclosure quality of non-heavy pollution industry, while positively related with heavily polluting industries. At last, it proposes several suggestions to the improvement of disclosure quality on environmental information.

**Key words:** Environmental information; Public pressure; Social trust; Internal governance

---

\* Chen Xiaolin, Zhang Guanjun, Hu Kan, Ji Yan, School of Accounting, Zhongnan University of Economics and Law.

Yuan Deli, Jiu Jiang College.

## 1. Introduction

With the rapid development of society and economic, the environmental pollution brought by industrial economy are becoming increasingly critical. Industrial emissions may cause greenhouse effect, water pollution, environmental damage, and bring harm to humanity. As a result, people began to probe the way for sustainable development and eco-economic construction, which lay equal stress on both industry development and environmental protection. Government and public are paying close attention to the corporate social responsibility and environmental protection.

The issue of disclosing environmental information was raised in 1989 International Accountant and in the Report Criterion Intergovernmental Expert Work Team seventh conference. In 1991 the ninth conference of the International Accountant and in the Report Criterion Intergovernmental Expert Work Team was held. Experts of the Work Team made continuous investigation and analysis on the environmental information disclosure of 20 seriously polluted companies in Germany and Switzerland. At the International Accountant and in the Report Criterion Intergovernmental Expert Work Team 15th conference, in 1998, the working paper "Position Papers on Environmental Accounting and Reporting" was unanimously adopted. (Xu Xin, 2007) In early 1998, the United States Environmental Protection Agency started to demand companies in oil, steel, metal, automobile and paper industries reveal environmental information additionally on the Internet. In addition, U. S. A. Securities and Exchange Commission (SEC) issued the No.92 Notice, which made mandatory requirements to environmental information disclosure. (Xu Xin, 2007) Canada, Britain, France, Denmark and other countries also promulgated similar rules and requirements on the company's

environmental information disclosure and environmental protection. Since 1979, China has promulgated the “Environmental Protection Law”, “Water Pollution Prevention Law”, “Law for the Protection of Air Pollution” and other relevant laws and regulations. In 2006 the government in the first time issued warning of polluted water, expecting 360 million citizens lack the access to safe drinking water. (Zhang Jingsong, 2007) Furthermore, the pollution of Beijing River in Guangdong province and Taihu Lake events triggered the government’s concern on environmental protection.

Not only the government concerned, the academics also has a growing interest in the disclosure of corporate environmental information. The disclosure of environmental information has many advantages. It can reduce the asymmetry of information between external users and enterprises. It can exercise an effective supervision over the improvement of environmental conditions, and fulfill enterprises’ social responsibilities. However, the fact is that some enterprises are willing to disclose environmental information, but some are unwilling to. Many literatures have studied the environmental information disclosure issues, focusing on the determining factors for disclosure action and the way to improve the disclosure quality of environmental information.

Deegan (1996), Deegan & Rankin (1996) studied the condition of environmental information disclosure in Australia. Deegan (1996) found that encouraging companies to disclose environmental information is in the view of political costs. Deegan & Rankin (1996) discovered that some companies disclose environmental information with the aim to improve companies’ image, and after EPA prosecution the disclosure of environmental information become more fully. Halme & Huse (1997) studied the environmental information disclosure in Sweden, Finland, Norway, Spain and several countries. They found that the disclosure of environmental information is significantly related to the industry varia-

bles, ownership structure and size of the Board. In addition, large companies are more inclined to disclose environmental information than small ones. Cormier & Magnan (1999) chose 212 companies in Canada from 1986-1993 as research samples, and researched the factors affecting disclosure of environmental information. They discovered information cost, finance condition are the main factors influence the disclosure quality. The size of company and control also affect its quality. Ahmad, Hassan & Mohammad (2003) analyzed the decisive decision factors on environmental report in Malaysia. In their study, they pointed out that company in the annual report of voluntary disclosing environmental information is negatively related with the company's financial leverage, and positively related with the audit performed by "Big Five". Cormier, Magnan & Velthoven (2005) selected 337 German companies as research samples. The result showed that the risk, company size, ownership, fixed assets determine the disclosure quality of environmental information in German. Gamble et. al. (1995) used 234 companies in 12 trades from 1986 to 1991 as samples to study the disclosure quality of environmental information in 10 K report of the United States. They found that the overall quality of environmental information disclosure is low. The disclosure quality of petroleum, iron and steel industries is higher, and it has got a significant increase since 1989. Basalamah & Jermias (2005) studied social and environmental report of companies in Indonesia. They found that the disclosure of social and environmental report is related to the serious threat company facing, such as the loss of reputation and survival crisis.

In China, Geng Jianxin & Jiao Ruojing (2002), Xiao Shufang & Hu Wei (2004) et. al. analyzed the situation and the issue of environmental information disclosure in listed companies. Tang Yali et. al. (2006) took the 60 companies disclosing environmental information in Directors' Report as samples, in contrast of 60 non-disclosing compa-

nies. They studied the influencing factors for the disclosure quality of environmental information. Their research showed that the company size and company performance are the main factors. Xiao Hua & Zhang Guoqing (2008) researched the changes of A-share stock prices and environmental disclosure behavior of 79 chemical industry companies after the Songhuajiang River event. They discovered that Cumulative stock yield is significant negative, and after two years the disclosure of environmental information increased significantly. Wang Jianming (2008) studied the influence of external pressure and industry differences have profound effect.

On the basis of above literatures this paper analyzes disclosure quality of environmental information from public pressure, social trust and internal management perspective. The significant difference between our paper and above literatures is that this paper collects samples in a longer interval from 2002 to 2006. We analyze the public pressure from government, creditors, shareholders and the public four aspects, and studies social trust and internal governance included, which is the expansion of past literatures. We found that the pressure from government, foreign bank creditors and shareholders' has positive relation with the disclosure quality; the more independent of the Board is, the higher its quality of environmental information disclosure; public trust has different impact on the companies in different industries.

## 2. Theoretical Basis and Hypothesis Development

### 2.1 Public pressure and environmental information disclosure

Information disclosed by the company is the basis for stakeholders' decision-making. In order to make the right decisions and maintain their own rights and interests, stakeholders will often put pressure on the com-

pany, asking it to disclose the information consistent with their requirements. However, based on various considerations, not all the companies are willing to fully disclose the information as stakeholders' expected. In fact, the disclosure of information has become a game of chess. The same is true for environmental information disclosure.

Legitimacy theory argues that Company voluntary disclosure of information is a means to deal with external pressure. According to this theory, differences in the quality of information disclosure between companies and periods are due to the public pressure faced by the company. Public pressure changes will lead to the changes in the level of information disclosure. Walden and Swartz (1997), Deegan and Rankin (1996), who has provided such evidence, found that the improvement in the level of information disclosure is the result of increased public pressure.

The entities that bring pressure to bear on the company mainly include the government, shareholders, creditors, the public and other interest groups. Public pressure is due to stakeholders' dissatisfaction (Walden and Swartz, 1997). For example, Government may not be satisfied with the company's environmental policy and implementation; the public perhaps is discontented with the pollution of natural resources produced by the company; shareholders, creditors hate the contingent liabilities and major crises caused by the environmental information hiding, and so on. Those sentiments eventually turn into public pressure, prompting the company to better implement environmental policies and disclose environmental information. Based on the needs of sustainable economic development, Government (especially the environmental management agencies as well as the Securities and Exchange bodies) will put pressure on the company to improve environmental protection measures and provide environmental information. In our country, the State Environmental Protection Administration has once released a public announce-

ment of business environmental information disclosure, which required the listed enterprises (mainly the state-owned enterprises with heavy pollution) disclose various environmental pollution. In order to avoid leading mistakes caused by information asymmetry, banks, as creditors, probably ask the company to provide environmental information, preventing the decrease of solvency due to environmental pollution compensation of the company and the ultimate loans recovery crisis.

Clearly, company environmental information disclosure has relation with external public relation. In other words, companies disclose the environmental information in the annual financial reports in the hope of responding to an easing public pressure, maintaining the good relationship with the government, creditors, shareholders and other parties, thus avoiding many crisis of being boycotted by the public, government punishment, creditors' stopping cooperation and Opposition from shareholders, establishing a good image of the company. Accordingly, we propose the hypothesis 1:

**Hypothesis 1:** The greater the pressure on public companies, the higher the quality of environmental information disclosure.

## 2.2 Social trust and environmental information disclosure

Social trust mainly refers to a set of "general and similar attitude" existing in all members of the society towards Public affairs, public organizations, interpersonal relationships, and other social activities or institutions operation. (Bai Chunyan, 2006). Social trust has an important impact on human economic activities. As early as in "Theory of Moral Sentiments", Adam Smith pointed out that human economic activity is based on social habits and morality without which trading activities will shake the foundation and have a great impact on economic activities. Fu Shan (1998) also argue that trust between the members of

the society directly influence and even determine the economic efficiency. Research by Zhang Weiying and Ke Rongzhu (2002) apparently shows that social trust has a significant relationship with regional economic development, enterprise performance, the introduction of foreign capital.

Social trust is based on personal trust. But it is a reflection upon the groups' awareness network formed objectively in the society through mutual influence and cohesion of a lot of personal trust, rather than the simple sum of personal trust. This shows that in the process of the mainstream trust (social trust) being created by a great number of centralized personal trust, mainstream personal trust will be assimilated by social trust. As a member of the society, the company will certainly be affected by the "general and similar attitude", be subject to and assimilated by the mainstream of trust. That is, in the province where the degree of social trust is higher, companies have a higher degree of integrity, the social contract, the laws and regulations will also be performed better. The responsibility of protecting the environment is required not only by Laws, regulations as Dominant contract norms, but also social responsibility and business ethics of hidden contract binding. High integrity companies will more strictly abide by the social contract, thus the quality of their environmental information disclosure will be better. Accordingly, we propose the hypothesis 2:

**Hypothesis 2:** The higher the degree of social trust company, the higher the quality of environmental information disclosure.

### **2.3 Internal governance and environmental information disclosure**

The literature of the relationship between internal governance and environmental information disclosure found that the former is a significant affecting factor of the latter. Independent directors are an important force



in the internal governance. A high proportion of independent directors and strong independence of the board contribute to the better supervision of the management, the management being more consistent with the interests of shareholders and the disclosure of information being more transparent. Klein (2002) found that the higher proportion of independent directors of the company, the higher quality of financial information the disclosure. Dechow, etc. (1996) also thought that the higher the proportion of internal directors of the company, the lower quality of financial information the disclosure. Based on the data of China, Cui Xuegang (2004) also found that independent directors can improve the transparency of information.

Frequency of the board meetings represents its liveness. Lipton and Lorsch (1992) pointed out that the common problems facing the board of directors is the lack of time to perform their duties, he meant that the extension of the time is conducive to improving corporate performance. Conger, etc. (1998) hold the same view that the board of directors meeting time is important resource to improve the effectiveness of the board operation. The study of Vafeas (1999) also found that the operating performance of the subsequent years will improve as a result of the board being very active last year. These conclusions show that the increased frequency of meetings of the Board of Directors helps to improve the efficiency of its governance. Therefore, it can be expected that the increase in frequency of meetings of the Board can improve the quality of environmental information disclosure. Accordingly, we propose the hypothesis 3:

**Hypothesis 3:** The higher the proportion of independent directors along with the more board meetings and the better internal management of the company, the higher quality of environmental information disclosure.